

SENATE RECORD VOTE ANALYSIS

104th Congress
2nd Session

Vote No. 13

February 7, 1996, 12:49 p.m.
Page S-1038 Temp. Record

FARM BILL/Peanut Quota Phase-Out

SUBJECT: Agricultural Market Transition Act of 1996 . . . S. 1541. Dole motion to table the Santorum amendment No. 3225 to the Craig (for Leahy/Lugar) substitute amendment No. 3184.

ACTION: MOTION TO TABLE AGREED TO, 59-36

SYNOPSIS: As introduced, S. 1541, the Agricultural Market Transition Act of 1996, will make sweeping changes to the Nation's farm policies. Farm programs will be reformed to allow farmers to plant what they want when they want, acreage reduction programs will be eliminated, and spending on farm programs will be capped so that subsidy payments will decline as part of a 7-year transition to full market-oriented farming.

The Craig (for Leahy/Lugar) substitute amendment would make numerous compromise changes (see vote No. 9).

The Santorum amendment would gradually reduce the quota support rate for each of the 1996 through 2000 crops of quota peanuts, and would eliminate the quota for the 2001 and 2002 crops of peanuts in favor of a 70-percent, world-market-rate, non-recourse loan program. (A "non-recourse" loan is one in which the debt may be repaid with the collateral that is put up instead of with cash.) Under the new loan program, a farmer would put up his peanut crop as collateral for a loan. The Federal Government would agree to take those peanuts in payment of that loan at 70 percent of the world market rate (the current world market rate is approximately \$350 per ton). Specific support rates for the years 1996-2000 would not be greater than the following: 1996, \$610 per ton; 1997, \$542 per ton; 1998, \$509 per ton; 1999, \$475 per ton; and 2000, \$475 per ton.

(The current peanut program works with quotas and price supports, as follows:

Quotas:

- the Federal Government limits the amount of peanuts that may be sold for domestic human consumption by setting total national poundage and import quotas;
- the national quota is set each year at the greater of the estimated level of demand for peanuts for domestic human consumption or 2.7 billion pounds (the current demand for consumption is a little over 2 billion pounds);

(See other side)

YEAS (59)			NAYS (36)		NOT VOTING (4)	
Republicans (28 or 57%)	Democrats (31 or 67%)		Republicans (21 or 43%)	Democrats (15 or 33%)	Republicans (3)	Democrats (1)
Ashcroft	Bingaman	Heflin	Abraham	Biden	Domenici- ^{2PY}	Bradley- ²
Bennett	Breaux	Hollings	Brown	Boxer	Gramm- ²	
Bond	Bumpers	Inouye	Chafee	Bryan	Hatfield- ²	
Burns	Byrd	Johnston	Coats	Feingold		
Campbell	Conrad	Kerrey	Cohen	Glenn		
Cochran	Daschle	Leahy	DeWine	Kennedy		
Coverdell	Dodd	Lieberman	Frist	Kerry		
Craig	Dorgan	Mikulski	Gorton	Kohl		
Dole	Exon	Moseley-Braun	Grams	Lautenberg		
Faircloth	Feinstein	Nunn	Gregg	Levin		
Grassley	Ford	Pell	Kassebaum	Moynihan		
Hatch	Graham	Pryor	Kyl	Murray		
Helms	Harkin	Robb	Lugar	Reid		
Hutchison		Rockefeller	McCain	Wellstone		
Inhofe		Sarbanes	Roth	Wyden		
Jeffords		Simon	Santorum			
Kempthorne			Smith			
Lott			Snowe			
Mack			Specter			
McConnell			Thomas			
Murkowski			Thompson			
Nickles						
Pressler						
Shelby						
Simpson						
Stevens						
Thurmond						
Warner						
Akaka						
Baucus						

LIVE PAIRS(1):
PRESENT AND
GIVING: D'Amato (PN) Domenici (PY)
RECEIVING:

EXPLANATION OF ABSENCE:
1—Official Business
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

● Georgia, Alabama, and Florida account for 60 percent of United States peanut output; Texas and Oklahoma account for 22 percent; and Virginia and North Carolina account for 16 percent; the national quota is apportioned among peanut-producing States; each year, the Federal Government distributes shares of apportionments to farmers within those States; farmers who hold existing quotas are entitled to have those quotas renewed, unless the national quota is lowered, in which case farmers' individual quotas may be reduced;

● the right to plant quota peanuts in a State may be sold or leased, but those peanuts must still be grown in that same State; some discretion is given to transfer quota peanut allocations between counties within a State;

● a grower who fails to use all of his quota in a year due to production shortfalls may add the unused portion to future year quotas (this practice is called "undermarketing");

● imports have traditionally been held by quotas to less than one-half of 1 percent of the peanut market, but recent trade agreements will allow imports (which may be sold for human consumption) to increase world-wide from the old level of 1.7 million pounds to 124 million pounds by 2000; further, all restrictions on Mexican peanuts will gradually be eliminated; and

● roughly half of the peanuts grown in the United States are quota peanuts; the other half are called "additional;" additional are processed for peanut oil and animal food domestically, and may also be sold for human consumption abroad, but they may not be sold for domestic human consumption.

Price supports:

● the Federal Government has two price support programs for peanuts, one of which results in no cost to the taxpayers and one of which causes taxpayer losses;

● the first program sets a loan rate for additional that by law may not result in losses; the current loan rate is \$132 per ton, which is well below the market price of approximately \$350 per ton; and

● the second program is a non-recourse loan program that sets quota peanut loan rates; the 1995 rate was \$678.36 per ton; the rate may not be changed by more than 5 percent per year; it may not be reduced to reflect any decline in peanut production costs.

The bill will reform current law by changing the most expensive aspects of the current quota system. The price support for quota peanuts will be reduced to \$610 per ton, where it will remain for the next 7 years. The minimum national poundage quota floor will be eliminated. Finally, the undermarketing provisions of current law will also be eliminated.)

Debate was limited by unanimous consent. Following debate, Senator Dole moved to table the Santorum amendment. Generally, those favoring the motion to table opposed the amendment; those opposing the motion to table favored the amendment.

Those favoring the motion to table contended:

Argument 1:

The peanut program has historically operated at little or no cost to the American taxpayers. In the past couple of years, there has been a cost, but this bill will enact reforms to make it a no-cost program again. The reforms will not damage the effectiveness of the program--America will still produce the highest quality of peanuts in the world, and those peanuts and the peanut products made from them will still be cheaper than comparable peanuts and peanut products that are sold world-wide. In contrast, the Santorum amendment would gut America's peanut program, which would in turn destroy the domestic industry, drive up prices, and lower the quality of peanuts sold in America.

Under the bill before us peanut farmers will suffer a large reduction in their earnings for quota peanuts because without a minimum poundage floor the national quota level will fall drastically; one estimate we have seen is that it will fall by 28 percent. On top of that loss, the non-recourse loan price will be cut back by a little more than 10 percent and held constant for 7 years. Farmers who made investments and borrowed funds based upon their understanding that there would be a much larger market at higher prices for their quota peanuts will be severely hurt by these changes. We believe that many of them will be bankrupted. We did not want to see such large reductions made; other Senators wanted to eliminate the program totally. In our opinion, the compromise cuts that are in this bill are draconian and are going to cause considerable harm to the industry without benefitting consumers.

We do not see any benefit coming to consumers from the changes in this bill or the even harsher changes in the Santorum amendment for three main reasons. First, very little of the retail cost of peanut products that consumers buy has to do with the cost that a processor pays to the grower of those peanuts. For instance, only 7 cents of the cost of a 50-cent bag of peanuts goes to the farmer who grew those peanuts. For candy bars and other products the farmer receives even less. For example, a source at Nestle's informs us that Nestle's pays only 2 cents for the peanuts in each 55-cent Snickers bar it sells (and only 3 cents for the sugar in each bar). As the General Accounting Office noted (after surveying several large manufacturers that use peanuts in their products), any lowering of the price that manufacturers have to pay to peanut producers for peanuts will probably not be passed on in lower prices to consumers. It would be difficult to do so--if the 2-cent cost of peanuts in a Snickers bar were reduced, how would that fraction of savings of 2 cents be passed on to consumers?

The second main reason that consumers would not benefit from the proposed reductions in the bill and in the Santorum amendment is that both would result in huge reductions in the domestic peanut supply. The Santorum amendment, with its effective

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gutting of the program, would result in the more severe reductions. Two separate studies by the farm credit system found that the Santorum amendment in its very first year would result in between 40 percent and 45 percent of quota farmers not getting financing. The domestic peanut industry would be devastated. Without an adequate supply of peanuts, in the short-term, prices would rise.

Over the longer term imports of peanuts would increase. This change would be dangerous for American consumers. Carcinogenic and other pesticides that are banned in the United States are routinely used on foreign peanut crops, and the residue remains on the peanuts that are imported. Foreign peanuts also are frequent carriers of such dangerous diseases as aflatoxin and stripe virus. Every peanut kernel that is grown domestically is inspected electronically to make sure that it is safe; the same cannot be said for imported peanuts and peanut products.

Peanut consumption in America has been declining in recent years, largely because there are less of the main consumers--children--who eat the main peanut product--peanut butter. We should not respond to that fact by gutting the peanut program that has served this country so well for so long. We should not allow our domestic growers to be driven out of business, to be replaced by foreign growers who produce an inferior, dangerous product, especially when we know that the end result will not be any reduction in prices on the supermarket shelves. We therefore strongly urge our colleagues to join us in tabling the Santorum amendment.

Argument 2:

The Senator from Pennsylvania has made a very good proposal with which we find ourselves in agreement, but we nevertheless must vote against it. This bill already contains significant reforms of the peanut program that should make it a no-cost program. Many Senators feel strongly that those reforms go too far, and will thus greatly disrupt domestic peanut production to the detriment of farmers and consumers alike. Other Senators, including ourselves and the supporters of the Santorum amendment, would rather have more far-reaching reforms. To our minds, this indicates that we may already have reached the best compromise possible for this year. We could insist on passing the Santorum amendment, but we would then probably lose a few more votes on passage of this measure. Senators must bear in mind that if they insist getting their way on this issue they may end up killing this bill and getting stuck with current law, which they certainly must admit is far worse than the compromise provisions that are in S. 1541. We will not let the best become the enemy of the good; therefore, regrettably, we must support the motion to table the Santorum amendment.

Those opposing the motion to table contended:

The peanut program is a Rube-Goldberg rip-off of consumers and taxpayers. It is also a rip-off for farmers who did not have the good sense to be born to a granddaddy who had enough connections in the 1930s when this program began to get a license to grow peanuts to eat. Sure, anyone can grow peanuts who wants to, but if anyone dares grow peanuts for people to eat without one of these inherited licenses, one will be thrown into jail. That detail is the most important detail that must be kept in mind throughout this debate.

The peanut program is amazingly, frustratingly complex, but once one works through the details one finds out that the basic facts are pretty clear. First, the Federal Government decides how many peanuts Americans will eat in a year (at a minimum, it must decide they will eat 2.7 billion pounds). It then sets that number as the national quota, and subdivides that quota among the States. Next, it gives individual farmers in those States quotas. Farmers in previous years who had quotas are entitled to get those quotas renewed. Nothing is paid--either one gets a quota license or one does not. Farmers who have licenses may sell peanuts for Americans to eat. They are currently paid, at a minimum, \$678 per ton. The reason that is the minimum price is that the United States promises it will buy peanuts at that price through its non-recourse loan program. A quota farmer who cannot get anyone to buy his peanuts for at least \$678 per ton can get a "non-recourse" loan from the Federal Government, meaning that the Government gives him that much per ton, and he pays off the "loan" with his collateral--the peanuts. The Federal Government then must get rid of the peanuts in the export, animal meal, and oil markets. Peanuts sold in those markets, without price supports, are currently sold for about \$350 per ton.

Most peanut production is concentrated in a few Southern States. A farmer who has a quota license may lease that license, but only on the condition that the peanuts be grown in the same State, and to an extent only in the same county. For the most part, quota holders are concentrated in a few counties in a few Southern States. In total, 80 percent of the national quota is held by just 20 percent of the quota holders. The quota holders, being mostly descended from the original 1930s holders, tend not to be minorities. Further, quotas, being valuable commodities, are bought and sold regularly. Investors all over the world hold these licenses to grow peanuts which they lease to farmers in the counties and States where the peanuts by law must be grown. The benefit in such cases goes mostly to the foreign investors, not the peanut growers.

About half of the peanuts grown in the United States are quota peanuts. The other half are grown and sold at market rates, which are roughly half as much as quota rates. There is no difference in quality in these peanuts, but if quality is really the objection of our colleagues, nothing prevents the United States from holding domestic, non-quota peanuts and imported peanuts to the same standards as quota peanuts.

Over the years, the Federal Government has moved away from quota systems in its farm programs. Instead, it has tended to create

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programs in which the market determines supply and demand, and the Federal Government only steps in with assistance when a huge drop in prices threatens to bankrupt farmers. The reasoning is that we want farmers to have a safety net in a very uncertain business, both for their benefit and for consumers' benefit. Farmers obviously benefit by having less risk of bankruptcy; consumers benefit by having more stable, constant food prices.

The peanut program is an anachronism in that it still operates by a quota system. The Santorum amendment would gradually phase that system out, and would then replace it with a system that will guarantee farmers payment for their crops at 70-percent of the world market rate as it existed when they planted. Thus, if the market collapses, and farmers cannot sell their peanuts, they will not go broke. The Federal Government will step in and prop up farmers, and the processing industry, by buying and marketing the peanuts. Farmers can be certain that they will suffer no more than a 30-percent loss.

According to the Congressional Budget Office, the Santorum amendment would not result in any increased costs to the taxpayers. It would also treat generously those quota farmers who by law are the only ones who are allowed to sell peanuts, and who sell them at twice the world market rate thanks to the guaranteed price set by Uncle Sam. That guaranteed price would be gradually reduced instead of simply eliminated. This would give quota farmers time to adjust to living in a free market instead of the type of centrally planned economy that we thought had lost all philosophical support with the collapse of the Soviet Union. The Santorum amendment, in sum, would gradually bring the peanut program into the modern, free-market world. It is a modest reform effort that merits our strong support.